Aberdeen *Group*

E-Invoicing Solution Selection Report

Leading an Accounts Payable Extreme Makeover

December 2005

Executive Summary

For too many organizations, accounts payable remains mired in antiquated, manual processes and sits beneath mountains of paper-based transactions. With profitability, compliance, and risk management high on executive agendas, the importance of invoice reconciliation and payment is on the rise. Early adopters of modern solutions are now offering relevant success stories. The strategic benefits and key performance benchmarks they reveal command executive attention and justify investment to meet both functional and financial, or procure-to-pay, process objectives.

Aberdeen's benchmarking of payables operations and performance shows, however, that AP remains in limbo between paper-based process and greater strategic aspirations. Our research found that most organizations continue to struggle with the following challenges:

- Paper-based, labor-intensive processes

- Dissociation from related procure-to-pay and finance activities

- A fear to suggest new tools or mandates to leverage those in place

- Ineffective business case development and promotion

According to Aberdeen research, payable processing cost improvements typically exceed 60% when automation, such as electronic invoicing, electronic payments, purchasing cards, ACH payments, and workflow are deployed and address a significant percentage of the overall paper-based and non-PO transactional volume.

Table i: Cost Per Invoice Improvement Benchmark

Cost Per Transaction	Cost Per Invoice	Improvement
Average for all companies processing *Less Than* 500,000 invoices per year	$34.38	$21.87 (63%)
Average for companies using electronic methods	$12.51	
Average for companies processing *Greater Than* 500,000 invoices per year	$3.98	$2.65 (67%)
Average for companies using electronic methods	$1.35	

Source: Aberdeen*Group*, June 2004

E-invoicing has emerged as the essential tool capable of integrating multiple electronic means over paper-based methods, and is the best way to significantly reduce costs and capture valuable business information (Figure i). Aberdeen anticipates best-in-class pro-

grams will implement a portfolio-like approach, which leverages the functionality, costs, and deployment advantages of three main solution sets:

- XML and Imaging-based electronic invoicing

- Card-based solutions

- ACH payments platform

To successfully execute this process, Aberdeen suggests a more specific definition of the scope and activities required to systematically and efficiently manage invoice receipt, validation, reconciliation, and payment disbursement. This more holistic classification of the accounts payable process permits greater operational efficiency, allows stronger financial controls, and creates more transactional visibility and flexibility. This solution framework provides imaginary chalk lines that can assist companies in understanding their current states and identifying specific sets of goals without being overwhelmed.

Figure i: Invoice Reconciliation and Payment Solution Framework
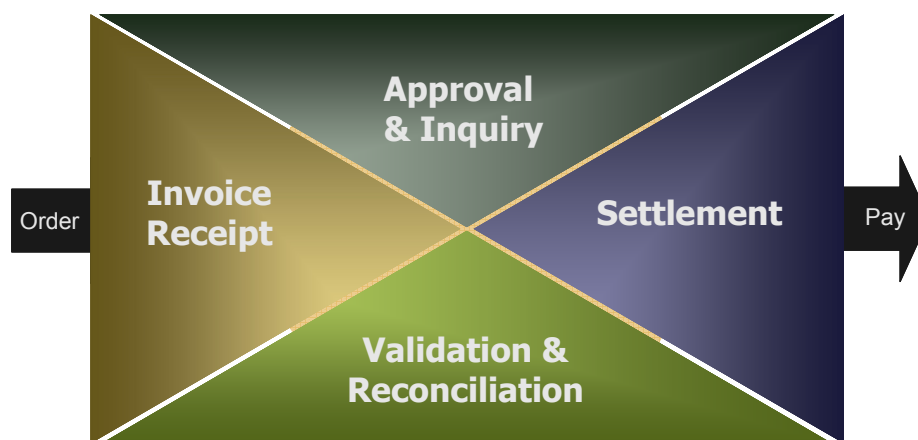
Source: Aberdeen*Group*, June 2005

The E-invoicing Solution Selection Report should be used a guidebook for effective assessment of Invoice Reconciliation and Payment (IR&P) strategies and solution selection. It includes frameworks to help enterprises assess their solution requirements and select the best-fit solution. (Later this summer, Aberdeen will issue a companion report that measures e-invoicing solutions against this framework. The report is available only to Aberdeen*Access* members).

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Chapter One:
Issue at Hand

Key Takeaways

- Continued cost reductions, cash flow management, and reporting concerns are collectively increasing the importance of effective accounts payable practices.

- Unlike other functions and processes, accounts payable has not successfully leveraged enterprise and internet technologies to transform itself.

- Poor accounts payable performance increases costs directly associated to the AP function, and significantly limits capture of procurement and treasury savings.

- E-invoicing is a core technology solution that complements traditional AP tools to deliver strategic and tangible financial benefits.

For too many organizations, accounts payable remains mired in antiquated, manual processes and sits beneath mountains of paper-based transactions. As early adopters of modern solutions offer success stories, their strategic benefits and key performance benchmarks command executive attention and justify investment functionally and in alignment with financial or procure-to-pay process objectives.

Aberdeen*Group's* research of over 1,250 accounts payable programs reveals renewed interest in streamlining and improving accounts payable invoice receipt, reconciliation, and disbursement activities. E-commerce, supply management, and assorted back-office functions have already successfully overhauled their processes by leveraging technologies, yet accounts payable directors continue to struggle in getting their arms around strategy options, selecting the best technologies, and crafting the right deployment activities.

The Timing Is Right for Payables Innovation

In recent years, the emergence of procurement and financial compliance requirements has dramatically increased the focus on payables innovation. During this time, new financial and regulatory requirements have increased the urgency to identify, monitor, and control obligations and payment performance. The accounts payable process serves a vital role within every organization by:

- Facilitating payment to the supply base
- Making sales and "use tax" payments
- Managing cash flow management efforts
- Earning early payment discounts
- Avoiding duplicate payments, overpayment, and late penalties
- Protecting against fraud
- Enforcing budgets, business policy, and contract compliance

Current dynamics provide accounts payable teams a golden opportunity to demonstrate the value their process and expertise can deliver. Aberdeen research confirms today's business drivers are strongly aligned to responsibilities and performance improvements in accounts payable (Figure 1).

- **Competitive pressure for cost reduction.** Regardless of industry, the need for continual internal (transactional) and third-party (supplier) cost reductions is a fact of business life. In traditional product-centric industries, rising commodity prices, labor costs, and global competition demands that every department drives out costs. In higher growth and services-related sectors, process inefficiencies and lost supplier leverage consume valuable financial and human resources.

- **Maximize liquidity to improve near-term financial performance.** Lean business initiatives have transcended modern business. Businesses of all sizes are interested in actively managing cash flow, weighing terms and price trade-offs, and optimizing local and global taxation.

- **Regulatory pressures / prevention of fraud**. Sarbanes-Oxley Act, OFAC, etc. are further elevating corporate awareness of compliance, fiscal responsibility, and transaction security. These regulations and concerns for fraud require accounts payable processes to track closure to financial commitments and audit compliance controls.

Figure 1: Business Drivers Improving IR&P Influence
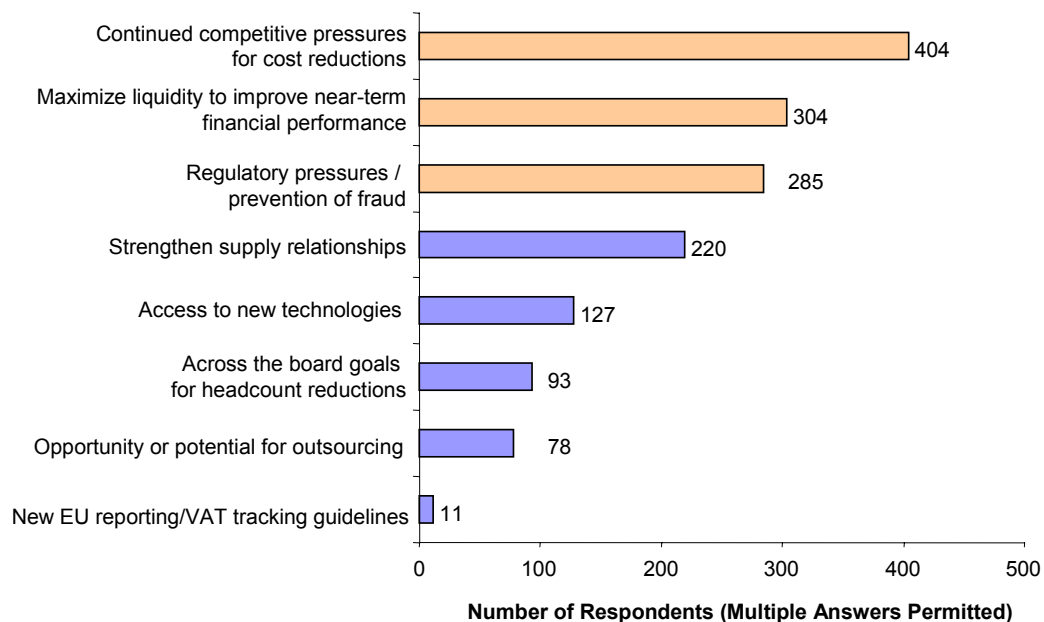
Source: Aberdeen*Group*, March 2005

Accounts Payable: Challenges and Impact

Despite these factors, few companies have addressed accounts payable transformation like other processes essential to the business. Typically overlooked and misunderstood, the accounts payable function is currently caught in a quagmire. Unfortunately, Aberdeen's benchmarking of payables operations and performance finds AP remains in limbo between paper-based processes and higher strategic aspirations. Our research found that most organizations continue to struggle with the following challenges:

- *Paper-based, labor-intensive processes*—Payables is a predominantly manual and paper-laden process. Staff is tied to day-to-day transactional activities, such as processing envelopes and paper invoices in order to enter a valid ledger and then chase the business for payment approval. Do we need evidence of the opportunity? More than two-thirds of companies Aberdeen surveyed reported they receive 80% or more of their invoices on paper via the mail. Similar percentages use a paper-based process for routing and approvals. The arduous and slow process of paper-based routing and approvals outside accounts payable often translates to lost early payment discounts or late payment penalties.

- *Dissociated from Procure-to-Pay process*—AP's position at the end of the procure-to-pay process allows it to collect and maintain the vital spend information, such as granular tier-two and tier-three transaction details needed to improve purchase decision-making. Its position also enables it to respond to supplier inquiries, and monitor budget commitments and authorizations that support required compliance efforts. Yet, with only 13% of payables teams formally aligned to purchasing, it most often currently lacks the means and mechanisms to contribute this intelligence in a strategic way to broader cost reduction initiatives.

- *Fear of suggesting new tools or mandates to leverage those in place*—Payables has not been altered by the type of technology-driven innovations that have transformed the front-end of the procure-to-pay process, such as e-sourcing and e-procurement. In a cost-conscience business environment, and in many cases, recently completing changes of enterprise resources planning (ERP), financial applications, directors of AP, treasurers, and controllers are reluctant to be the advocate and request further "expensive" technology, while procurement and supply chain continue to earn more than their fair share of new technology investment (often without the clear return outlined in the following section).

- *Ineffective promotion and business case development*—According to Aberdeen Group's recent research, 61% of CFOs acknowledged that procurement's role in strategic operations has increased. Even though room exists for strategic contributions, accounts payable, unlike procurement, has not been successful at articulating its contributions, or at building a business case for action. The same study finds less than one-third of companies take into "real" consideration cash flow implications when negotiating and defining terms.

Such a quagmire does more than just frustrate the AP staff and suppliers. Recent interviews and benchmarking show inefficiencies in payables transcend the entire corporation.

Beyond the AP implications, such as inflating processing costs by 2 to 2-1/2 times and extending the process cycle time beyond standard 30, 60, or 90 day terms, the limitations of accounts payable likely diminish the performance of procurement, treasury, and ultimately, line of business efforts (Table 1).

Table 1: The Business Impact of Poor Accounts Payable Performance

Business Area	Issues
Accounts Payable	• Increased head-count • Duplicate payments • Payment penalties • Overpayments to suppliers • Lack of auditability / reporting
Procurement	• Poor spend visibility • Supplier distrust • Lost discounts • Poor negotiation leverage • Unrationalized supply base • Reduced contract compliance
Treasury	• Overpayment tax obligations • Increase working capital • Regulatory penalties • Loose cash management • Inflated escheatment balances
Line of Business	• Poor supplier relations • Increase costs • Increase working capital • Limit international expansion • Reduce revenue growth

Source: Aberdeen*Group*, December 2005

Aberdeen research also reveals the positive effect of efficient payables on all other procure-to-pay processes, including spend analytics, contract management, e-procurement, and supplier performance management. Companies that embrace a strategic, functionally-integrated approach, and successfully integrate invoice receipt, reconciliation and payment activities into the broader procure-to-pay process, are best positioned to reap incremental savings of 2% to 17.5%.

In many corporations, procurement automation led a first wave of savings. By all indications, continued competitive pressures for cost reduction will require a closed procure-to-pay loop to retain previous savings and capture a second wave of savings (Figure 2). In related Aberdeen purchasing research, a majority of companies still reported having "none" or "limited" visibility in half of the ten most important types of procure-to-pay information, including:

- Non-purchase order purchases, which the study showed account for a growing majority of the expenditures

- Granular, tier-two and tier-three transaction details to improve purchase decision-making and prevent fraud

- Status data to efficiently respond to supplier inquiries and disputes

- Budget and authorization controls to support compliance efforts

Figure 2: Closed-Loop Procure-to-Pay Process
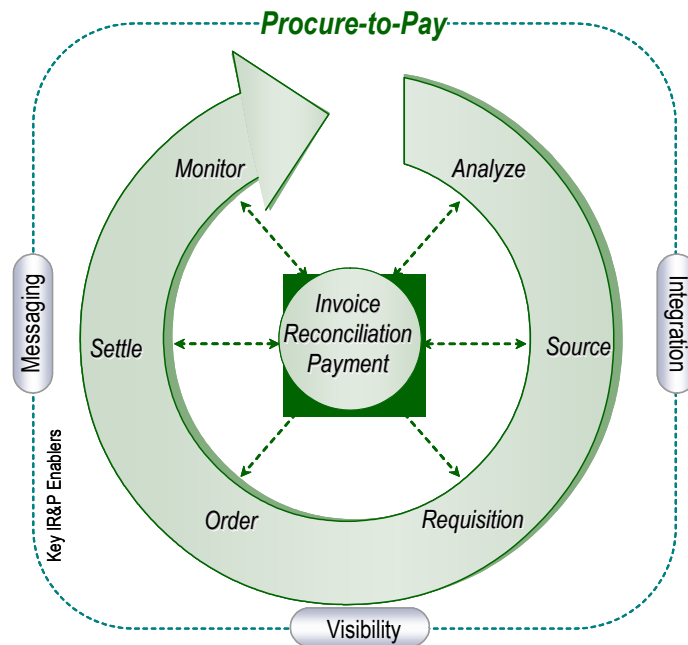
Source: Aberdeen*Group*, November 2004

Automation: Simple Case for Innovation Technologies

Despite the strategic opportunities for innovating accounts payable that lie across the business, the practical and functional benefits of reducing AP transactional costs alone justify AP automation technologies. According to Aberdeen research, payable processing cost improvements typically exceed 60% when automation (e-invoicing, e-payment, purchasing cards, ACH payments, and workflow) are deployed and address a significant percentage of the overall paper-based and non-PO transactional volume.

> The use of electronic integration, messaging, reconciliation, and reporting solutions in accounts payable reduced transaction cost between 63% and 67%.

Aberdeen benchmarks differ widely in large and mid-size companies due mainly to operational scale. However, the use of electronic integration, messaging, reconciliation, and reporting in accounts payable consistently reduces transaction costs between 63% and 67%, as shown in the table below.

Table 2: Cost Per Invoice Improvement Benchmark

Cost Per Transaction	Cost Per Invoice	Improvement
Average for all companies processing *Less Than* 500,000 invoices per year	$34.38	$21.87 (63%)
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Source: Aberdeen*Group*, June 2004

Aberdeen has benchmarked more than 1,250 companies and investigated several dozen enterprise AP strategies and their use of supporting technologies. Several of these recent success stories were profiled as best practices in the invoice reconciliation and payment series. This research identified and quantified the positive impact AP automation can have on accounts payables operations (Table 3).

Table 3: Typical Benefits of Invoice Reconciliation and Payment Automation

Improvement Area	Performance Impact
Invoice Processing Cost	Reduced 30-60%
Processing Cycle Time	Reduced by 65%
Accounts Payable Labor	Reduced 25-40%
On-time Payment Percentage	Improved from 15% to 59%
On-time Payments Earning Discounts	Increased up to 500%
Supplier Participation	70-90% on average (in categories addressed)
Invoices Received in Electronic Format	55% to 90%
Payments Settled in Electronic Format	Increase 65%

Source: Aberdeen*Group*, June 2005

Chapter Two:
Solution Market Trends

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Key Takeaways

- Market factors signal the rapid maturation of e-invoicing solutions, services, and adoption strategies.

- These factors led Aberdeen to predict that e-invoicing revenues would double in 2005. Aberdeen estimates e-invoicing-related solution revenues to be at a $100 million run-rate by the end of 2006.

- Increased competition and on-demand expectations will drive price compression and further market consolidation.

- Low transactional fees and small budgets to support up-front services will require stand-alone providers to *significantly* simplify the sales process.

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Invoice reconciliation and payment's position at the back-end of the procure-to-pay process postures it well to add value and assist the organization in facing modern business challenges. Finance and procurement continue to extend their influence and interest into the accounts payable process.

In Aberdeen's *Invoice Reconciliation and Payment Benchmarking Report,* 20% of companies cited interest in using e-invoicing solutions. They believed these solutions could easily address between 20% and 50% of their invoice receipt / payment volumes via the internet-based process (and e-invoicing features have continued to evolve since those data points were collected). As more accounts payable teams bring forth functional success stories, a new standard for payables processing is being set. CFOs and CPOs are now gaining insight into the strategic and operational dependencies of payables to improve controls and grow savings. Solutions continue to mature, clarifying their capabilities and efficient deployment strategies.

These factors led Aberdeen to predict that e-invoicing revenues would double in 2005. Aberdeen estimates e-invoicing-related solution revenues to be at a $100 million run-rate by the end of 2006. Considering the continued focus on procurement and cash management improvements, corporate treasury's trend to replace paper-check with electronic banking seems a natural expansion of application foot-prints. This is particularly true in the ERP-financial and e-procurement applications, as Aberdeen*Group* projects revenues for this sector to maintain double each of the next two years and sustain at 20 – 30% through 2009 (Figure 1) and exceed $500 million in total revenues in five years.

Figure 3: E-Invoicing Savings Opportunity and Potential Solution Revenues
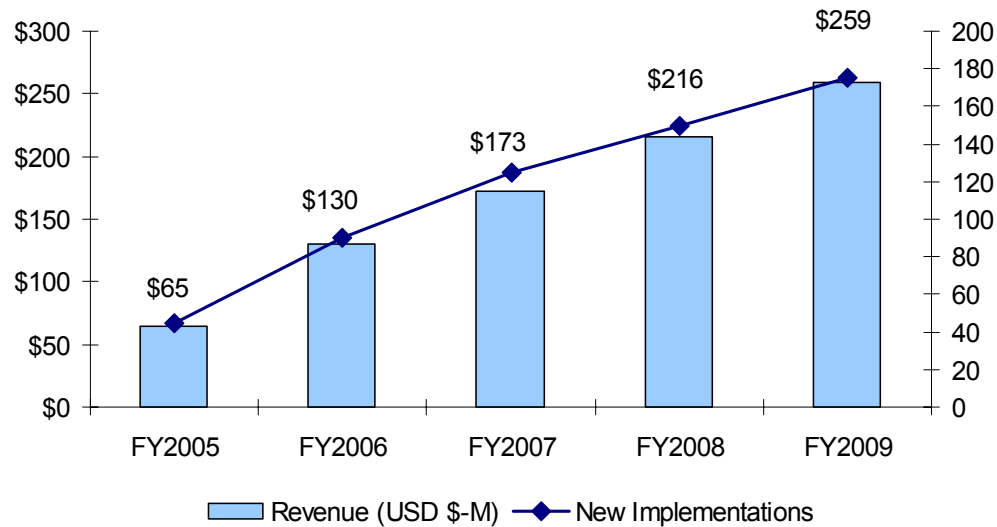
Source: Aberdeen*Group*, December 2005

Favorable Interest from Executive Decision Makers

CFOs and CPOs are demonstrating interest in investing in transformations of the payables process. The experiences and influence of these two roles will strongly shape the e-invoice and payment marketplace going forward.

Aberdeen's recent survey of nearly 100 CFO's and senior financial managers reveals their interest in proactively managing days payables outstanding (DPO) balances to improve working capital and, in select industries, provide distressed suppliers attractive financing options.

Moreover, the report cited great interest in exploring alternative operational models for aspects of payables processing – much akin to their recent success outsourcing payroll processing. Analysis indicates that more than half all companies now automate payroll processing transactions via external service providers. The survey revealed that many finance leaders believe their future plans for payables outsourcing are equivalent to the levels of payroll processing outsourcing and top the list of all financial duties planned to be addressed by outsourcing underpinned by these technologies (Figure 4).

Figure 4: Plans for Outsourcing Financial Activities
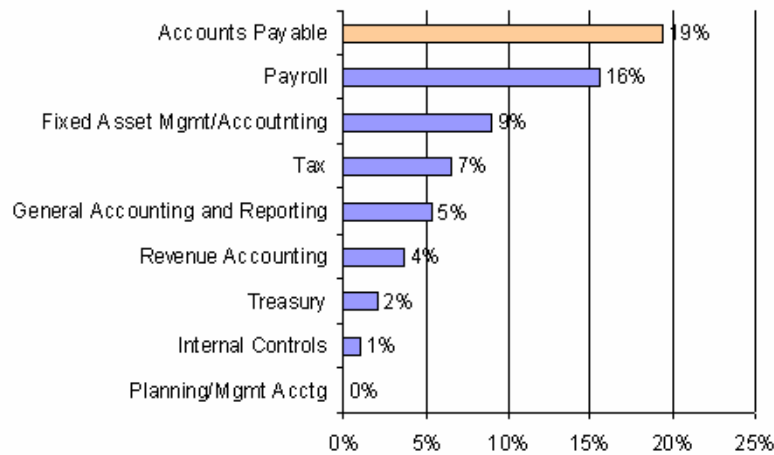
Source: Aberdeen*Group*, September 2005

Similarly, in Aberdeen's report, "The CPO's Agenda: Strategies for Procurement Transformation," senior procurement executives at over 100 global enterprises indicated their intentions to continue adoption of procurement automation, while increasing integration of existing automation investments to close the procure-to-pay transaction loop.

Automation investments are cited as a key component of every procurement executive's improvement strategy for the next three years. These findings are not surprising. At the tactical level, automation streamlines and removes many of the non-strategic and transactional activities that consume the majority of purchasing and payables time, such as order processing, expediting, and tracking payment. As mentioned in Figure 3, closed-loop procure-to-pay automation allows enterprises to extend procurement processes and gather additional intelligence across the enterprise, while improving coordination and control, and monitoring compliance of budgeting and contractual spending.

At the same time, maturation of e-invoicing solution functionality, convergence of e-procurement and electronic banking, and the process of outsourcing services providers, offer realistic opportunities to payables directors seeking to lead the charge. Through enterprise inquiries and solution provider discussions, Aberdeen has estimated a greater than two-fold increase in the number of selection processes active in 2006, a healthy growth in solution provider pipelines.

Early adopters have reached in several directions to get assistance in transforming their AP processes. The playing field of providers involved in defining the solutions is a convergence of financial, procurement, and technology providers. As tide raises all ships, each has begun to work with charter clients in defining viable approaches to capturing the opportunity.

Table 4: Types of Potential Solution Providers

Providers	Typical Offerings
Banking Institutions	Traditional lock-box services Trade credit financing Purchasing card programs T&E card programs Merchant Payment Services Domestic and international transactions
Corporate Payments Platforms	Accounts Receivable processing Accounts Payable processing Payroll & benefits disbursements Regulatory and tax disbursements Intra-company transfers
E-Invoicing Point Solutions	Electronic invoice application Supplier network Settlement integration Supplier enrollment services
E-Procurement and Marketplaces	Purchase to Pay integration Supplier network
ERP/Financial Applications	General ledger Supply chain auto-reconciliation Workflow
Outsourcing Providers Service Bureaus	Mail-room processing (Invoice handing and scanning) Records reconciliation and archival Check-printing Other fulfillment services
Imaging / Workflow Solutions	Forms management In-house invoice handing and scanning Workflow Electronic archival
Trade Financing Solutions	AP invoice dashboard Supplier portal Structured financing instruments ERP Integration
Treasury Management	Consolidated cash forecasting Foreign exchange Deal/trade administration Analytics and risk management

Source: Aberdeen*Group*, December 2005

Market Competition Will Drive Consolidation

Despite growing demand, the e-invoice and payment sector is a market in turmoil. Stand-alone solution specialists are under pressure to grow revenue in a sluggish market, for a solution that requires a complex sale to various internal stakeholders. More established competitors, especially from e-procurement providers that are incorporating some features into their applications to offer "potentially" greater value. Meanwhile, major financial institutions continue to work from their strong corporate foothold in key accounts and have begun to bundle both e-procurement and e-invoicing into treasury, financing, and global trade services. ERP and document management solution providers are also extending their capabilities to include the AP-specific work-flows and features, but often struggle with prioritizing release schedules with other non-AP functionality.

Continued new market entrants from these players, and buyer price expectations set by other hosted or on demand solutions (e.g. e-sourcing, CRM, etc.), will force price depreciation. Low transactional fees and small budgets to support up-front services will require stand-alone providers to *significantly* simplify the sales process to sell more solutions to meet revenue expectation levels, or aggressively partner with players with greater access to decision makers, a set up for further consolidation in the market.

Considering these factors, 2006 is a make-or-break year for many point solution providers. The market has shown consolidation within the past 12 months and Aberdeen anticipates at least two more specialist solution providers will be acquired or forced out of business by year end. Surviving specialists will be those that can acquire and deploy new customers within the next 6 to 12 months. Winners will also need to accomplish the following to simplify the sales cycle:

- Broaden solution footprint to support, scale the core, and align the "edges" of payables capabilities with broader business process flows (e.g., Source-to-Settle, Order-to-Cash, etc).

- Deliver solutions to automate and streamline unique terms and management requirements of specific industries (e.g., healthcare, retail, etc.).

- Provide limited-use solutions for specific types of categories, including indirects, complex services, and recurring payments (e.g., leases, IP, etc.).

- Support seamless integration into enterprise transactional / finance systems, BPM workflow tools, and banking/credit networks.

- Provide role-based reporting to enable "intelligent" cash management and supplier relationship management decisions across the enterprise.

- Continue to grow supplier participation in invoice networks.

Chapter Three:
Selecting Tools for the Job

I n its simplest form, accounts payable policy, staff, and technology provide the underlying platform that enables the enterprise to consistently and efficiently receive, validate, approve, and pay supplier invoices.

Most companies have moved to a more centralized or shared services model to improve policy and process compliance, yet only 3% of accounts payable processes reported having a high-level of automation. According to survey data gathered by IOMA, 79% of AP managers see *"automation"* as the key enabler to future success (Figure 5).

Many Tools, No Clear Solution

Aberdeen finds that most large accounts payable teams have dabbled in using multiple applications and tools with little success.

Figure 5: AP Manager's View of Requirements

Source: IOMA, October 2005
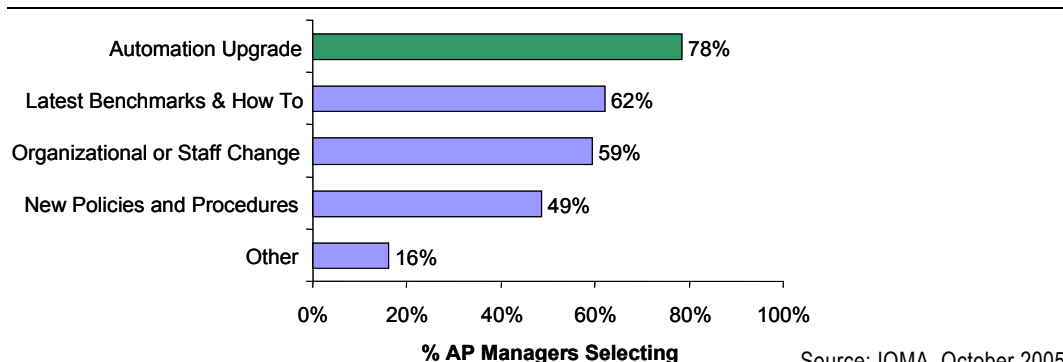
Enterprise Solutions

Accounts payable has been largely underserved by enterprise applications. Nearly every company has some sort of financial system that supports the process. Although these applications bring strengths in tracking commitments and actuals, and have evolved the AP module into areas providing auto-matching and certain notifications, most have yet to embrace electronic commerce beyond electronic data inter-change. Currently, fewer than 25% of overall companies use any electronic data interchange (EDI), electronic receipts settlement (ERS) or embedded electronic invoice presentment and payment (EIPP).

Scanning and Imaging

Traditionally the domain of the CIO, existing in-house imaging or workflow systems have been slow to come to the forgotten AP process. When the corporate investment has been overlaid on payables, available solutions, (scanning, imaging, e-fax, workflow, and e-mail/digital signatures) are often pieced together to gather and organize invoices from decentralized points of receipt or to simply overcome the paper-chase. Albeit a substantial first-step, the value of most imaging solutions become rapidly limited by difficulty to convert images into dynamic data necessary to facilitate straight-through processing, cash management, and exception management.

Electronic Invoicing

E-invoicing has evolved into the most viable option that addresses the majority of the invoice types, suppliers, and complements. Companies with large, diffused supplier bases are able to achieve 100% invoice accuracy through "PO flip" processing in which the invoice and payment process is based upon a pre-authorized purchase order or service smaller suppliers via web-entry options. Not only is the paper invoice eliminated, transaction visibility is in real-time, which facilitates rapid dispute resolution, payment negotiation (often online), or accurate scheduling within payment terms and treasury rules to maximize float.

Electronic Payment

The final settlement activities are the last step in the procure-to-pay process and are often overlooked. After a period of plateau growth, automated clearinghouse (ACH) processing for check payments is showing signs of resurgence as more treasurers and controller seek to reduce the risk and cost of payments. The US market is quickly approaching e-payments in a ubiquitous manner. BACS processing offers efficient settlement in Europe and other select areas of the world.

Instantiation of electronic over paper-check and wire transfer, (Check 21 rulings, UPIC, a unique bank identifier, OFAC controls, and an exhaustive list of financial intuitions, and buyers and sellers) has given e-payment a confident foot-hold. Paper is still king, however, and electronic funds transfer (wire) fees continue to grow.

Purchasing Cards

Likewise, expenditures managed via P-card programs have grown over the past five years at a compounded rate of approximately 21%. Transactional volumes over this same period have grown an average of 15% per year.

However, cards are limited by the very minimal deployment of the program. New review, processing, and data collection technologies of credit networks demand all program directors revisit the charter and scope of purchasing card programs. A fresh approach can transform the program in ways that significantly boost its usage in terms of expenditures and transaction volumes, and increase the inherent value of the program to related purchasing, payable, and treasury initiatives. Deploying card payments in an increasing number of spend categories, and with assistance from card issuers to improve reporting and controls, reduces administration and provides deeper data integration.

When at least 30% of suppliers were paid via purchasing cards under master or standard agreements, the 5-year transaction growth was three-times higher than P-card programs without master agreements in place. Even more staggering, these same programs went beyond incidental, unplanned, or undefined purchasing transactions and were able to grow total dollars six fold (Figure 6).

Figure 6: Impact of Integration and Information on P-Card Growth
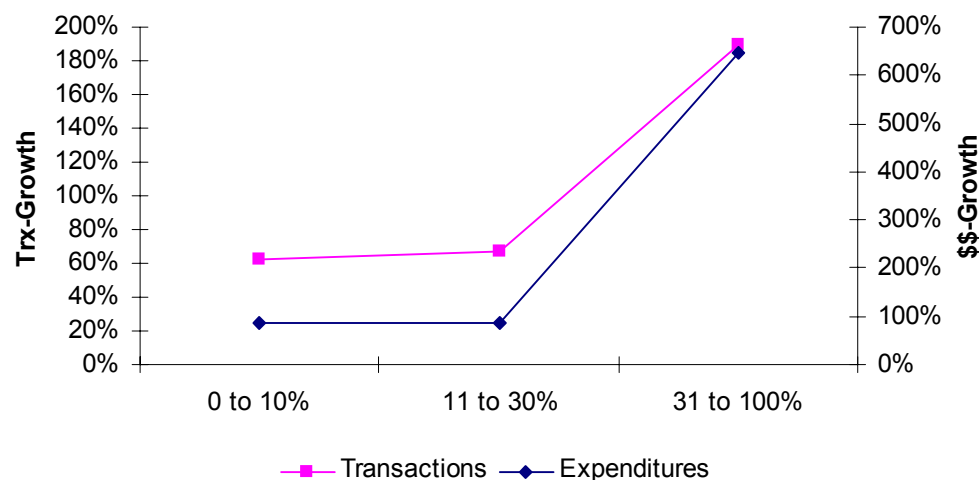
Source: Aberdeen*Group*, March 2005

Taking a Portfolio Approach

Aberdeen finds that few AP teams have defined a cohesive strategy to leverage the variety of tools available. Moreover, in many departments a single tool or approach gets extended beyond its core capabilities.

E-invoicing has emerged as the essential tool for integrating multiple electronic means over paper-based methods. ***This collection is the best way to significantly reduce costs and capture valuable business information*** (Figure 7). Aberdeen anticipates best-in-class programs will implement a portfolio-like approach that leverages the functionality, costs, and deployment advantages of three main solution sets:

- XML and Imaging-based electronic invoicing
- Card-based solutions
- Electronic payments platform

The combination of e-invoicing versatility and the scalability of an ACH payment platform provides appropriate controls and data collection across major spend categories, and reduces total processing costs. AP and purchasing teams, complemented by integration of card-based products, will be able to maximize visibility and adoption in difficult-to-control, non-traditional spend categories, which later may migrate to the e-invoice and payment solution.

Figure 7: Invoice Reconciliation and Payment Portfolio
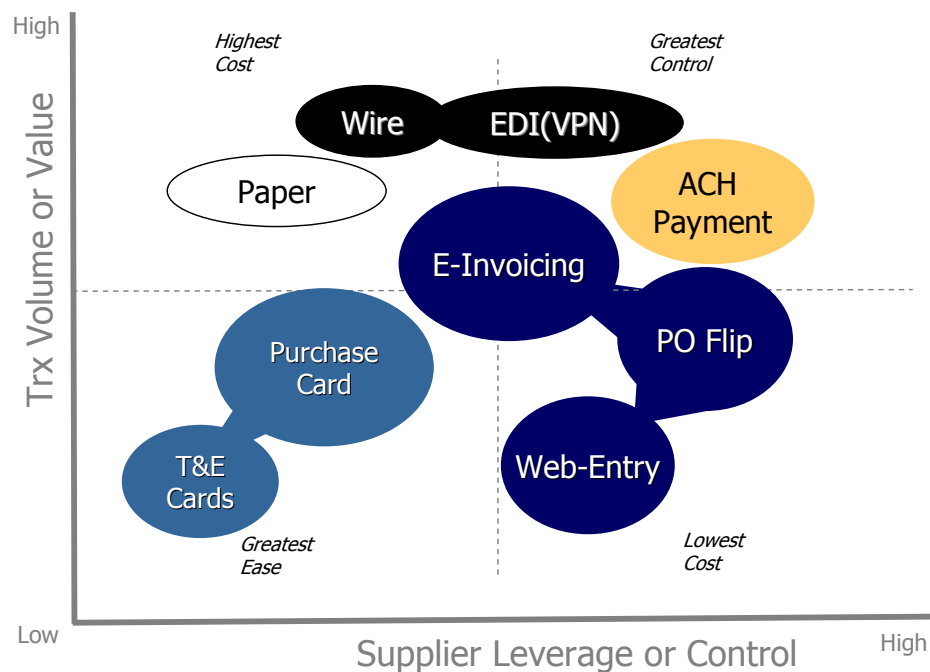
Source: Aberdeen*Group*, December 2005

Chapter Four:
Solution Selection Framework

Key Takeaways

- Holistic classification of AP permits greater operational efficiency, allows stronger financial controls, and creates more transactional visibility and flexibility.

- The IR&P solution framework draws imaginary chalk lines that give companies realistic sets of e-invoice and payment goals.

T his chapter summarizes the framework enterprises can use to assess and define their invoice reconciliation and payment competence, identify the areas that could benefit from using an electronic solution, and understand the associated return on investment (ROI) and time-to-value for such an initiative.

Invoice Reconciliation and Payment Defined

Accounts payable is a term typically applied to the functional team responsible for invoice handling and payment processing. To successfully execute this process, Aberdeen suggests a more specific definition of the scope and activities required to systematically and efficiently manage invoice receipt, validation, reconciliation, and payment disbursement. This more holistic classification of the accounts payable process permits greater operational efficiency, allows stronger financial controls, and creates more transactional visibility and flexibility.

The invoice reconciliation and payment solution framework (Figure 8) contains the following elements:

1. **Invoice Receipt**—includes paper invoice processing, electronic invoice receipt in EDI, .xml, .csv, or other file formats, credit card statements; and, in many cases, order/invoice creation in cases of supplier web entry or PO flip.

2. **Approval and Inquiry**—includes establishing rule-based routings and approval hierarchies to support physical or electronic workflow. This includes notification, search inquiry, and integration directly with key transactional systems in order to determine status, flag discrepancies, or delays.

3. **Validation and Reconciliation**—includes proactive tracking of standard conditions of matching pricing, terms, quantities, discounts, and service-level compliance by category and supplier groupings. Reconciliation must have internal and third-party collaboration and efficient methods for dispute resolution. Additionally, this part of the framework includes detailed data capture for regulatory audits and spend analysis.

4. **Settlement (Payment)**—includes the selection of the most appropriate payment method to disburse funds such as check, wire, EFT, ACH, and card networks. In addition to security and transaction costs, this facet includes the active manage-

ment of more dynamic financing features to optimize cash flow, taxation, discounts, rebates, and trade financing.

Figure 8: Invoice Reconciliation and Payment Solution Framework
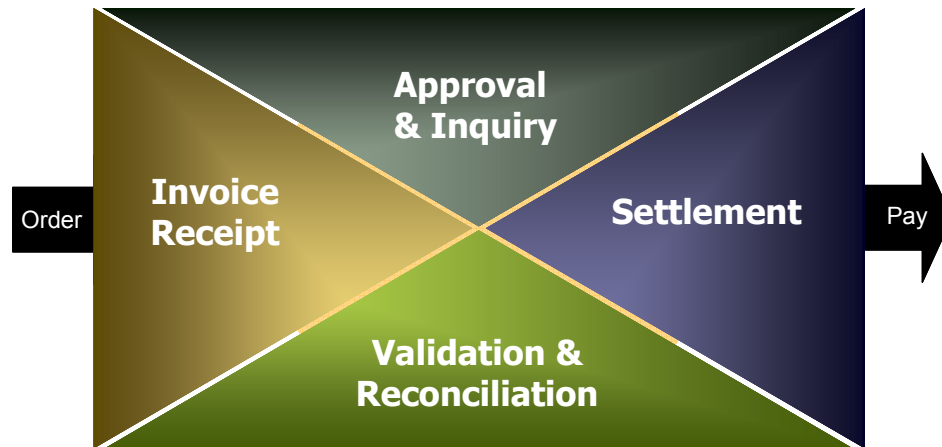
Drawing the Chalk Lines

The solution framework provides imaginary chalk lines that help companies identify specific sets of goals without being overwhelmed. Each of the four elements of the process can then be coordinated holistically, as deployment activities proceed independently based on the organization, process, transactions, or supplier constraints.

For example, a large, multinational corporation may outsource services to accommodate invoice receipt and entry from a diverse supply base, while enrolling higher volume suppliers systematically into an e-invoicing program, and then have a corporate workflow solution manage all approvals. Yet, a mid-size, domestic company may be better served to embrace e-invoicing for a tightly knit group of suppliers in the region, while maintaining EDI for major direct suppliers and a purchasing card for e-commerce purchases in which there is less adoption influence.

Invoice Receipt

A key consideration in determining the best invoice receipt is understanding the trade-off of electronic versus images. In a best case scenario, maximum adoption will be attained in a solution that accommodates both paper-based and electronic formats. Imaging functionality is particularly important for conglomerates and/or multinational companies that need to rapidly establish invoice visibility across markets or regions. Electronic formats provide the richest data and facilitate numerous other best practices including: straight-through processing (in combination with e-payment), auto-reconciliation, real-time dispute resolution, finite cash management, and point of payment negotiation of special discounts, terms, or financing.

Adoption is maximized by providing multiple submission formats conducive to different sizes of supplier, transaction volume, and buyer leverage.

Table 5a: Solution Selection Criteria: Invoice Receipt

Key Features and Capabilities	

• Purchase order integration
    o PO line item detail
    o PO acknowledgements
    o PO change orders
    o Advance ship notice
    o Partial receipt validation
• Scan paper invoices
• Fax invoice submission
• OCR extraction
	• Manual entry/coding queuing
	• Web-form entry
	• Purchase order created entry (PO flip)
	• Invoice replication
	• CSV/FTP file upload submission
	• EDI (industry standard) submissions
	• Self-service supplier enrollment
	• Mail-room, imaging service bureau services

Source: Aberdeen*Group*, December 2005

Approval and Inquiry

Key considerations for approval and inquiry predicate the level of productivity improvement that will be seen within AP and across the business. The sophistication of workflow-based rules includes creation of unique flows for specific transaction types and offloading the arduous task of routing invoices for approvals internally. The intuitiveness of the user interface, and/or integration with ERP messaging or email is a trait defining the scope of deployment with the lines of business.

Table 5b: Solution Selection Criteria: Approvals and Inquiry

Key Features and Capabilities	
• Invoice format and header information validation • Configurable approval processing work flow • Transaction type, grant authority, exception management • Messaging status flags/ indicators • Secure self-service inquiries portal • Exception management and custom routing	• Email invoice editing with audit trail • Invoice dashboard and metrics • Aggregate status • Term discount tracking • Integration with BPM/ERP architecture • HR and grant of authority routing/rules

Source: Aberdeen*Group*, December 2005

Data Validation and Reconciliation

The reconciliation, audit, and recovery process in most companies is the metaphoric equivalent of *shoveling mud out of a deep hole*—never quite reaching the bottom, quarter after quarter, year after year, and dealing with the same exceptions internally or paying third-party auditors to identify, document, and negotiate collection of wrongly paid funds. Automated record validation, checks and resolution procedures is particularly important for companies that need to comply with unique regulatory reporting, product certifications, or having operations in various markets or regions. Reconciliation best practices are required to substantially change DPO management.

Specifically, the growth of trade promotion spending over the last five years has been a well-documented phenomenon in retail and other channel driven markets. Results from the trade promotion research which evaluated overall promotion budget changes from 2003 to 2005 reveal beliefs — manufacturers are spending more and retailers are expecting more, placing greater emphasis on gaining control over reconciliation of these trade payments. All adding to the complexity and demand on AP.

Validation and reconciliation procedures are often industry- or region-specific, and must be managed as such. For example, in retail, the accelerated use of trade promotion activities creates a favorable environment to transform payables and post-audit approaches. Likewise, meeting new regulations, such as Sarbanes-Oxley or OFAC, requires defining the corporation's compliance and fiscal commitments in a highly auditable process.

Table 5c: Solution Selection Criteria: Validation and Reconciliation

Key Features and Capabilities
• GL-budget integration
• Real-time dispute resolution workflow and messaging
• Auto-reconciliation
• Duplicate invoice rules
• Recurring payments rules
• Table-based, level 2 validation (Tax, Freight, non-standard fields)
• Deceptive practice audits

Source: Aberdeen*Group*, December 2005

Settlement and Payment Processing

Key considerations in determining the best electronic settlement solutions are clearly scalability, security, and the network already onboard. The solution should already demonstrate proficiency in managing payments similar to volumes that your company commands. Strong providers must have prior experience integrating the major corporate banking financial institutions, and supporting the major suppliers in your supply base.

A strong e-payments platform must meet the expectations of controllers, treasury, and banking partners. With all businesses facing extreme cost pressures, financial functions and their strategies to closely manage and monitor cash flow, will have direct bearing on AP's ability to efficiently disburse and monitor payments. Highest return on investment will be delivered when the solution supports various corporate payment types on a single payments platform, such as accounts receivable, accounts payable, payroll, benefits, family support, regulatory and tax disbursements, and intra-company transfers.

Table 5d: Solution Selection Criteria: Settlement and Payment Processing

Invoice Receipt
Self-service supplier account management
Vendor verification
Authentication
Disbursement scheduling
Remittance processing
Domestic wire, ACH, and international payment formats and SWIFT messaging
Paper check management of stops, void, escheatments
Digital lock-box image retrieval (C21)
Compliance enforcement, OFAC checking audit trail
Integration to ERP, treasury, and cash management solutions

Source: Aberdeen*Group*, December 2005

Transaction Visibility for All

With new financial and reporting regulations, it is increasingly important that IR&P systems include advanced reporting and analytics to assist companies in executing performance and risk assessments of corporate agreements and individual terms and clauses. Advanced solutions provide role-based "dashboards" of organizational, compliance, and payment performance. Such reporting capabilities enable line of business and financial managers to gain a personalized view of all relevant transactions. Dashboards also give executives much-needed insight into operational performance (e.g., payment cycle times, process bottlenecks, etc.) and contract performance (e.g., compliance rates, execution milestones, revenue recognition, etc). Such advanced reporting capabilities can also speed audits and help identify issues early.

Often, advanced solutions include analytical tools to evaluate performance, including a cost and risk assessment of individual methods or terms. Some scenario-based analytical tools can be used to support cash management and direct transactional rules and employees toward optimal usage.

Table 5e: Solution Selection Criteria: Reporting and Analytics

Reporting and Analytics
What standard report does the system ship with?
Can the system integrate with my existing reports and analysis engines?
Does the system provide role-based reporting and/or "dashboards"?
Can the system support automated generation of reports required for Sarbanes-Oxley, Industry, and tax reporting requirements?
Does the system support e-mail alerts, escalations, and process triggers based on pre-defined milestones (e.g., payments) and thresholds (e.g., volumes, termination dates)?
Does the system support status-based analysis of contract terms and clauses?
Does the system support integration with third-party reporting and analytical tools?

Source: Aberdeen*Group*, June 2005

Chapter Five:
## Finishing Touches to Ensure Success

Key considerations for successful selection and deployment exist in each element of the Invoice Reconciliation and Payment Solution Selection Framework. Aberdeen's 2005 investigation of over 25 AP automation programs reveals several critical success factors. IR&P solution success depends on those touch-points closest to the key elements considered for selection (Figure 9), including:

- Purchasing and budget integration
- Employee adoption
- Supplier self-service
- Automated reconciliation
- Bank and treasury workbench integration

Figure 9: Invoice Reconciliation and Payment Portfolio
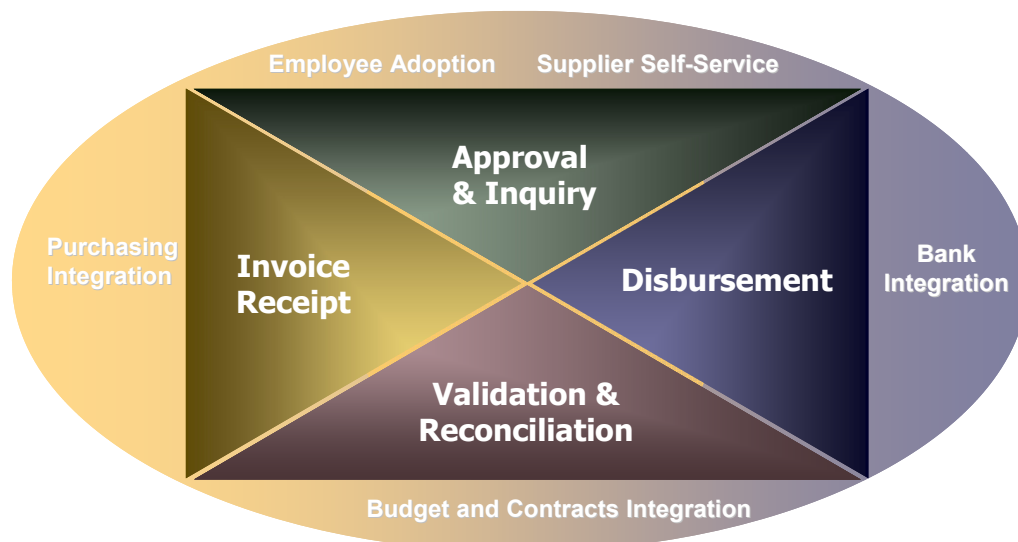
Aberdeen Group has identified four attributes which are emerging as differentiating capabilities. As the e-invoicing market continues to mature, these attributes ensure your program continues to expand and deliver incremental value to accounts payable, suppliers, and the entire enterprise.

Invoice Aggregation and Visibility

A fundamental change in solution scope provides a new focus on improving the management of *all* invoices stemming from non-purchase order and indirect purchases. The e-invoicing application should consolidate all invoicing and settlement transaction information regardless of origin. By bringing together ERP, e-invoicing, and other sources, the solution not only creates a single record system for AP compliance reporting, it establishes the opportunity to align approval and settlement policies to optimize cash flow, discounts, and supplier communications. Since AP is the primary source of spend information at most corporations, the financial pay-off of end-to-end visibility can be huge for both treasury and procurement.

Supplier Self-service

Empowering suppliers with internet web-sites not only offloads the arduous tasks of maintaining vendor data and responding to supplier inquiries of payment, it also improves supplier trust, therefore improving supplier performance. According to Aberdeen research, increased adoption of supplier portals translates into improved performance of a great number of suppliers in all performance areas, including order, invoice, and data accuracy. Greater supplier performance improvements are reported by companies using a supplier portal for communication, monitoring, and integrating transactions than those using traditional methods.

Supplier and Financial Institution Network

The surest method of reducing the upfront effort required for deployment is selecting a partner that demonstrates traction with financial intuitions, and with suppliers that are currently partners of your company. Several e-procurement, marketplace, and e-invoicing providers have assembled networks that include 15,000 to 30,000 suppliers. Consideration needs to be made for the fit of these networks to your business. The network must currently support both *invoice* and *payment* transactions to be viable in the long run. Aberdeen*Group* anticipates that in addition to the major vertical-specific markets that still exist, networks of industry-specific suppliers will continue to emerge.

Advance Discount and Payables Financing

- Leading early adopters demonstrated the ability to provide significant benefits in the term of additional discounts and supplier financing.

- There is clear a distinction between "pay me now" features and overall discount management capabilities. Any e-invoicing and workflow can capture early pay discounts by processing invoices faster.

- A best-in-class solution, apart from processing invoices faster, effectively doubles the discount opportunity. With notification, each receipt generates "pay me now" proposals on every approved invoice. Suppliers have the option to accelerate payment on any approved invoice based on a rate set by the buyer's treasury.

An additional feature is the notion of prorated discounts, which shift a discount term away from an "all or nothing" proposition. For example, at day 11 of a typical 2%-10, net 30 term, the buyer loses the discount opportunity. In a prorated solution, however, the buyer is able to gain a prorated portion of the discount. In the most distressed industries, several corporations have moved to the extreme by creating self-funded notes which provide certain suppliers access to more favorable financial terms on payable balances. Select solutions manage the presentment and reconciliation of such transactions.

Conclusion

Invoice reconciliation and payment is getting revamped. Savvy AP operations have taken advantage of the current cost-conscious business environment to justify change in IR&P processes. While many companies continue to struggle with paper-based processes, dissociation between finance and AP, and ineffective promotion and business case development, early adopters are using new technology to reduce paper-based and manual processes, and the strategic benefits and performance benchmarks they reveal command attention. Aberdeen research has shown that payables process improvements typically exceed 60% when e-invoicing, e-payments, and other forms of automation are implemented. E-invoicing is a powerful tool in overhauling AP. It is capable of multiple electronic measures over paper-based methods, significantly reducing costs, and capturing valuable business information. The framework and solutions offered in this report will help you assess your solution requirements and move toward more efficient accounts payable.

Featured Sponsors

The global e-Invoicing network

OB10

OB10 is the leading global business-to-business invoice exchange, connecting trading partners to increase the efficiency and effectiveness of their invoice to pay processes. We provide accounts payable departments with an uncomplicated solution for receiving invoices electronically from their suppliers and achieve predictable and measurable financial results through:

- Unrivaled supplier enrollment capabilities;

- Limited technical and business process integration, governed by an approach which encourages and enables companies to leverage investments in their current accounting systems, and

- Tax compliance and language support in multiple countries throughout Europe, North America and the Asia Pacific region

PurchasingNet

PurchasingNet Inc. is a leading provider of Web-based e-procurement and e-payables software to mid-size and large companies. The company has over 1,400 customers in financial services, retail/consumer products, professional services, media/publishing, and a variety of other industries.

Founded in 1983, PurchasingNet has focused exclusively on the development and implementation of procurement and payables applications. In addition to building an extensive, blue-chip client base, PurchasingNet possesses deep domain expertise in purchasing and payables business processes.

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The American Express Company is a diversified worldwide travel, financial and network services company founded in 1850. It is a leader in charge and credit cards, Travelers Cheques, travel, financial planning, investment products, insurance and international banking.

Direct Commerce

Direct Commerce is a leading provider of Procure-to-Pay solutions to Global 2000 corporations and their trading partners. Their solutions include order management, electronic invoicing, imaging, discount management, and workflow solutions.

Direct Commerce solutions enable large companies to automate the delivery, receipt, routing, approval, and management of millions of POs, invoices, and payments to and from thousands of suppliers. The DCI service offering gives customers a rapid return on their investment by quickly enabling them to automate the P2P process. Paper documents are eliminated and electronic documents can be easily automatically routed and approved thereby cutting cycle times and reduc-

ing errors. Direct Commerce supports tens of thousands of suppliers sending and receiving hundreds of thousands of electronic documents adding up to billions of dollars per year in transaction volume.

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Jeff Pikulik focuses on the successful deployment of strategic procurement best practices in the Global 5000. His efforts continue to reveal cost savings beyond the traditional financial supply chain. Specifically, Pikulik works with executives and business unit managers from all functional backgrounds and their cross-functional teams to bring many time tested supply management and process automation strategies and tactics into the mainstream.

Pikulik currently examines how transferable best practices are being applied to address specific opportunities internal and external to the corporation. Based on these findings, business and purchasing executives will be able to clearly define the financial opportunity and organizational approach by understanding the consistency and predictability of proven best practices as applied to nontraditional supply expenditure categories.

Pikulik has helped executives in the energy, pharmaceuticals, and hospitality industries deploy strategic programs to achieve a second-wave of cost reduction, process efficiencies, and better organizationally align with the business owners and users.

Lesley Keene, Research Editor
Enterprise Performance Management
AberdeenGroup

As research editor, Keene brings her writing expertise to Enterprise Performance Management at Aberdeen to help analyze marketing, finance, human resources and other internal enterprise functions. With her strong track record in producing solid and effective marketing and press materials, she assists in creating effective tools for Aberdeen clients.

Prior to joining Aberdeen Group, Keene served as Press Coordinator for Kodimedia, London where she wrote and designed company literature and press material, developed written content for the website, and helped devise business strategies to stabilize the emerging company. As a freelance writer she has reported on a range of subjects spanning health, politics, and entertainment. Some of her most recent work includes "Belly dancing for fitness" for Women's Health and "What's Happened to Sony" for Brandchannel.com.

Education

Keene holds a Masters in international journalism from City University, London and a BA in arts administration from Simmons College, Boston.

Appendix A:
Research Methodology

B etween April 2004 and December 2005, Aberdeen*Group* reviewed over 700 ac-
counts payable programs. Invoice reconciliation and payment best practices are
selected based on the following criteria:

- Breadth and scope of invoice reconciliation and payment program and system deployment

- Alignment and support of broader organization goals and initiatives

- Percentage of total invoices or suppliers under the program / within the system

- Process efficiencies gained through automation

- Financial results gained through automation

- Deployment timeline and challenges overcome

Solution provider information was gathered through in-person and web-based briefings with over 78 companies in various market roles during 2004 and 2005.

Solution providers recognized as sponsors of this report nominated customers and had no substantive influence on the selection of the success stories included in the report. Their sponsorship has made it possible for Aberdeen*Group* to make these findings available to readers at no charge.

Other reports noted are available to qualified members of Aberdeen*Group*'s enterprise community and Aberdeen*Group* clients at www.aberdeen.com.

Appendix B:
Related Aberdeen Research & Tools

Related Aberdeen research that forms a companion or reference to this report include:

- *The Purchasing Card Benchmark Report,* March 2005
- *Harnessing Payables to Capture a Second Wave of Procurement Savings,* December 2004
- *Best Practices in Spending Analysis,* September 2004
- *Invoice Reconciliation and Payment Benchmark Study*, June 2004

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

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Aberdeen delivers unbiased, primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help Global Business Executives accomplish the following:

- IMPROVE the financial and competitive position of their business now
- PRIORITIZE operational improvement areas to drive immediate, tangible value to their business
- LEVERAGE information technology for tangible business value.

Aberdeen also offers selected solution providers fact-based tools and services to empower and equip them to accomplish the following:

- CREATE DEMAND, by reaching the right level of executives in companies where their solutions can deliver differentiated results
- ACCELERATE SALES, by accessing executive decision-makers who need a solution and arming the sales team with fact-based differentiation around business impact
- EXPAND CUSTOMERS, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

Our History of Integrity

Aberdeen was founded in 1988 to conduct fact-based, unbiased research that delivers tangible value to executives trying to advance their businesses with technology-enabled solutions.

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